Forestar Group Inc.
Form 10-K
March 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From to

Commission File Number: 001-33662

Forestar Group Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-1336998
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6300 Bee Cave Road
Building Two, Suite 500
Austin, Texas 78746-5149
(Address of Principal Executive Offices, including Zip Code)

Registrant's telephone number, including area code: (512) 433-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing sales price of the Common Stock on the New York Stock Exchange on June 30, 2015, was approximately $275 million. For purposes of this computation, all officers, directors, and ten percent beneficial owners of the registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors, officers, or ten percent beneficial owners are, in fact, affiliates of the registrant.

As of February 29, 2016, there were 33,906,986 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the Company's definitive proxy statement for the 2016 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

Overview

Forestar Group Inc. is a residential and mixed-use real estate development company. We own directly or through ventures interests in 58 residential and mixed-use projects comprised of 7,000 acres of real estate located in 11 states and 15 markets. We also own 590,000 net acres of oil and gas fee mineral interests located in Texas, Louisiana, Georgia and Alabama. In addition, we own interests in various other assets that have been identified as non-core that the company will exit opportunistically over time. Our non-core assets include our investment in oil and gas working interests, 89,000 acres of timberland and undeveloped land and commercial and income producing properties, which consists of one hotel, seven multifamily properties and two multifamily sites. In 2015, we had revenues of $262 million and net loss of $213 million. Unless the context otherwise requires, references to “we,” “us,” “our” and “Forestar” mean Forestar Group Inc. and its consolidated subsidiaries. Unless otherwise indicated, information is presented as of December 31, 2015, and references to acreage owned include approximate acres owned by us and ventures regardless of our ownership interest in a venture.

Key Initiatives

- Reducing costs across our entire organization,
- Reviewing entire portfolio of assets,
- Reviewing capital structure; and
- Providing additional information.

Business Segments

We manage our operations through three business segments:

- Real estate,
- Oil and gas, and
- Other natural resources.

Our real estate segment provided approximately 77% percent of our 2015 consolidated revenues. We are focused on maximizing real estate value through the entitlement and development of strategically located residential and mixed-use communities. We secure entitlements by delivering thoughtful plans and balanced solutions that meet the needs of communities where we operate. Residential development activities target lot sales to local, regional and national homebuilders who build quality products and have strong and effective marketing and sales programs. The lots we develop in the majority of our communities are for mid-priced homes, predominantly in the first and second move up categories. We invest in projects principally in regions across the southern half of the United States that possess key demographic and growth characteristics that we believe make them attractive for long-term real estate investment. A majority of our active real estate projects are developed on land we or our ventures acquired in the open market. We also develop and own directly or through ventures, multifamily communities as income producing properties, principally in our target markets. On January 28, 2016, we announced that multifamily is a non-core business. As a result, we plan to opportunistically exit our multifamily portfolio and no longer allocate capital to new communities in this business.

Our oil and gas segment provided 20% percent of our 2015 consolidated revenues. We promote the exploration, development and production of oil and gas on our owned and leasehold mineral interests. These interests include 590,000 core owned mineral acres and 228,000 net mineral acres leased from others, which represent oil and gas working interests and have been identified as non-core.

Our other natural resources segment provided 3% percent of our 2015 consolidated revenues. We sell wood fiber from our land, primarily in Georgia, and lease land for recreational uses. We have 89,000 acres of non-core timberland and undeveloped land we own directly or through ventures. In addition, we have water interests in 1.5 million acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and 20,000 acres of groundwater leases in central Texas.

Our real estate origins date back to the 1955 incorporation of Lumbermen's Investment Corporation, which in 2006 changed its name to Forestar (USA) Real Estate Group Inc. We have a decades long legacy of residential and commercial real estate development operations, primarily in Texas. Our oil and gas origins date back to the mid-1940s when we started leasing

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our oil and gas mineral interests to third-party exploration and production companies. In 2007, Temple-Inland distributed all of the issued and outstanding shares of our common stock to its stockholders, which we will refer to as the “spin-off”.

Our results of operations, including information regarding our business segments, are discussed in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in Item 8, Financial Statements and Supplementary Data.

2015 Significant Highlights (including ventures):

Real Estate

- Sold 1,472 developed residential lots; average gross profit of approximately $34,400 per lot
- Sold 13,862 acres of undeveloped land for almost $2,300 per acre
- Sold 63 commercial acres for approximately $248,300 per acre
- Sold 1,062 residential tract acres for almost $10,600 per acre
- Sold Midtown Cedar Hill, a stabilized multifamily community, for $42.9 million, generating segment earnings of $9.3 million and reducing debt by $24.2 million

Oil and Gas

- Incurred non-cash impairment charges of approximately $164.8 million related to unproved leasehold interests and proved properties principally due to the significant decline in oil prices and likelihood these non-core assets will be sold
- Sold approximately 109,000 net leasehold mineral acres and 39 gross (7 net) producing wells for $17.8 million, primarily in Nebraska, Texas and North Dakota

Other Natural Resources

- Sold nearly 227,000 tons of fiber for $13.50 per ton

Real Estate

In our real estate segment, we conduct project planning and management activities related to the acquisition, entitlement, development and sale of real estate, primarily residential and mixed-use communities, which we refer to as community development. We own and manage our projects either directly or through ventures, which we use to achieve a variety of business objectives, including more effective capital deployment, risk management, and leveraging a partner’s local market contacts and expertise. Our development projects are principally located in the major markets of Texas.

We have three real estate projects representing 4,400 acres currently in the entitlement process, which includes obtaining zoning and access to water, sewer and roads. Additional entitlements, such as flexible land use provisions, annexation, and the creation of local financing districts generate additional value for our business and may provide us the right to reimbursement of major infrastructure costs. We use return criteria, which include return on cost, internal rate of return, and cash multiples, when determining whether to invest initially or make additional investment in a project. When investment in development meets our return criteria, we will initiate the development process with subsequent sale of lots to home builders or for commercial tracts, internal development, sale to or venture with third parties.

We have 58 entitled, developed or under development projects in 11 states and 15 markets encompassing 7,000 acres planned for residential and commercial uses. We may sell land at any point when additional time required for entitlement or investment in development will not meet our return criteria. In 2015, we sold approximately 14,000 acres of undeveloped land at an average price of almost $2,300 per acre.

At year-end 2015, we have discontinued entitlement efforts on eight projects located in Georgia as we determined it is unlikely these will be developed and classified the acreage as higher and better use timberland. In addition, we have classified land associated with 12 projects as entitled undeveloped land as we determined it is unlikely these projects will be developed, resulting in a decrease of approximately 4,000 planned lots from our projects lot inventory.

A summary of our real estate projects in the entitlement process [a] at year-end 2015 follows:

Project	County	Market	Project Acres [b]
California			
Hidden Creek Estates	Los Angeles	Los Angeles	700
Terrace at Hidden Hills	Los Angeles	Los Angeles	30
Texas			
Lake Houston	Harris/Liberty	Houston	3,700
Total			4,430

(a) A project is deemed to be in the entitlement process when customary steps necessary for the preparation of an application for governmental land-use approvals, such as conducting pre-application meetings or similar discussions with governmental officials, have commenced, or an application has been filed. Projects listed may have significant steps remaining, and there is no assurance that entitlements ultimately will be received.

(b) Project acres, which are the total for the project regardless of our ownership interest, are approximate. The actual number of acres entitled may vary.

A summary of our non-core timberland and undeveloped land at year-end 2015 follows:

	Acres
Timberland	
Alabama	3,300
Georgia	45,900
Texas	14,300
Higher and Better Use Timberland [a]	
Georgia	20,000
Entitled Undeveloped Land [b]	
Georgia	5,100
Total	88,600

(a) Higher and better use timberland represents eight projects previously in the entitlement process. We have discontinued entitlement efforts as we determined it is unlikely these projects will be developed.

(b) Entitled undeveloped land represents 12 projects and nearly 4,000 planned future lots previously included with our projects in the development process. We determined it is unlikely these projects will be developed.

Products

The majority of our projects are single-family residential and mixed-use communities. In some cases, commercial land uses within a project enhance the desirability of the community by providing convenient locations for resident support services.

We develop lots for single-family homes and develop multifamily properties on our commercial tracts or other developed sites we may purchase. We sell residential lots primarily to local, regional and national home builders. We have 7,000 acres, principally in the major markets of Texas, comprised of land planned for about 13,900 residential lots. We generally focus our lot sales on the first and second move-up primary housing categories. First and second move-up segments are homes priced above entry-level products yet below the high-end and custom home segments. We also actively market and sell undeveloped land through our retail sales program.

Commercial tracts are developed internally or ventured with commercial developers that specialize in the construction and operation of income producing properties, such as apartments, retail centers, or office buildings. We also sell land designated for commercial use to regional and local commercial developers. We have about 1,100 acres of entitled land designated for commercial use.

Cibolo Canyons is a significant mixed-use project in the San Antonio market area. Cibolo Canyons includes 2,100 acres planned to include 1,769 residential lots, of which 997 have been sold as of year-end 2015 at an average price of $73,000 per lot. The residential component includes not only traditional single-family homes but also an active adult section, and is planned to include condominiums. The remaining 56 acres of commercial component is designated principally for multifamily and retail uses. Located at Cibolo Canyons is the JW Marriott® San Antonio Hill Country Resort & Spa (Resort), a 1,002 room destination resort and two PGA Tour® Tournament Players Club® (TPC) golf courses designed by Pete Dye and Greg Norman. We have the right to receive from the Cibolo Canyons Special Improvement District (CCSID) nine percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by CCSID through 2034 and reimbursement of certain infrastructure costs related to the mixed-use development.

In 2014, we received $50,550,000 from CCSID principally related to its issuance of $48,900,000 Hotel Occupancy Tax (HOT) and Sales and Use Tax Revenue Bonds, resulting in recovery of our full Resort investment. These bonds are obligations solely of CCSID and are payable from HOT and sales and use taxes levied by CCSID. To facilitate the issuance of the bonds, we provided a $6,846,000 letter of credit to the bond trustee as security for certain debt service fund obligations in the event CCSID tax collections are not sufficient to support payment of the bonds in accordance with their terms. The letter of credit must be maintained until the earlier of redemption of the bonds or scheduled bond maturity in 2034. We also entered into an agreement with the owner of the Resort to assign its senior rights to us in exchange for consideration provided by us, including a surety bond to be drawn if CCSID tax collections are not sufficient to support ad valorem tax rebates payable. The surety bond decreases as CCSID makes annual ad valorem tax rebate payments, which obligation is scheduled to be retired in full by 2020.

A summary of activity within our projects in the development process, which includes entitled, developed and under development single-family and mixed-use projects, at year-end 2015 follows:

Project	County	Interest Owned [a]	Residential Lots/Units: Lots/Units Sold Since Inception	Residential Lots/Units: Lots/Units Remaining	Commercial Acres: Acres Sold Since Inception	Commercial Acres: Acres Remaining
Projects with lots/units in inventory, under development or future planned development and projects with remaining commercial acres only						
Texas						
Austin						
Arrowhead Ranch	Hays	100 %	—	381	—	11
The Colony	Bastrop	100 %	459	1,425	22	31
Double Horn Creek	Burnet	100 %	94	5	—	—
Entrada [b]	Travis	50 %	—	821	—	—
Hunter’s Crossing	Bastrop	100 %	510	—	54	49
La Conterra	Williamson	100 %	202	—	3	55
Westside at Buttercup Creek	Williamson	100 %	1,496	1	66	—
			2,761	2,633	145	146
Corpus Christi						
Caracol	Calhoun	75 %	12	62	—	14
Padre Island [b]	Nueces	50 %	—	—	—	15
Tortuga Dunes	Nueces	75 %	—	134	—	4
			12	196	—	33
Dallas-Ft. Worth						
Bar C Ranch	Tarrant	100 %	372	733	—	—
Keller	Tarrant	100 %	—	—	—	1
Lakes of Prosper	Collin	100 %	157	130	4	—
Lantana	Denton	100 %	1,249	515	14	—
Maxwell Creek	Collin	100 %	943	58	10	—
Parkside	Collin	100 %	19	181	—	—
The Preserve at Pecan Creek	Denton	100 %	598	184	—	7
River's Edge	Denton	100 %	—	202	—	—
Stoney Creek	Dallas	100 %	255	453	—	—
Summer Creek Ranch	Tarrant	100 %	983	268	35	44
Timber Creek	Collin	88 %	—	601	—	—
Village Park	Collin	100 %	567	—	3	2
			5,143	3,325	66	54
Houston						
Barrington Kingwood	Harris	100 %	176	4	—	—
City Park	Harris	75 %	1,311	157	52	113
Harper’s Preserve[b]	Montgomery	50 %	513	1,215	30	49
Imperial Forest	Harris	100 %	—	428	—	—
Long Meadow Farms [b]	Fort Bend	38 %	1,551	253	190	115
Southern Trails [b]	Brazoria	80 %	915	81	1	—
Spring Lakes	Harris	100 %	348	—	25	4
Summer Lakes	Fort Bend	100 %	722	347	56	—

Summer Park	Fort Bend	100	%	102	97	32	64
Willow Creek Farms II	Waller/Fort Bend	90	%	90	175	—	—
				5,728	2,757	386	345
San Antonio							
Cibolo Canyons	Bexar	100	%	997	772	130	56
Oak Creek Estates	Comal	100	%	273	281	13	—
Olympia Hills	Bexar	100	%	740	14	10	—
Stonewall Estates [(b)]	Bexar	50	%	371	19	—	—
				2,381	1,086	153	56
Total Texas				16,025	9,997	750	634

Project	County	Interest Owned [a]		Residential Lots/Units: Lots/Units Sold Since Inception	Residential Lots/Units: Lots/Units Remaining	Commercial Acres: Acres Sold Since Inception	Commercial Acres: Acres Remaining
Colorado							
Denver							
Buffalo Highlands	Weld	100	%	—	164	—	—
Johnstown Farms	Weld	100	%	281	313	2	3
Pinery West	Douglas	100	%	86	—	20	106
Stonebraker	Weld	100	%	—	603	—	—
				367	1,080	22	109
Georgia							
Atlanta							
Harris Place	Paulding	100	%	22	5	—	—
Montebello [b] [c]	Forsyth	90	%	—	220	—	—
Seven Hills	Paulding	100	%	851	231	26	113
West Oaks	Cobb	100	%	—	56	—	—
				873	512	26	113
North & South Carolina							
Charlotte							
Ansley Park	Lancaster	100	%	—	304	—	—
Habersham	York	100	%	28	159	—	7
Walden	Mecklenburg	100	%	—	387	—	—
				28	850	—	7
Raleigh							
Beaver Creek [b]	Wake	90	%	—	193	—	—
				—	193	—	—
				28	1,043	—	7
Tennessee							
Nashville							
Beckwith Crossing	Wilson	100	%	—	99	—	—
Morgan Farms	Williamson	100	%	104	69	—	—
Vickery Park	Williamson	100	%	—	87	—	—
Weatherford Estates	Williamson	100	%	—	17	—	—
				104	272	—	—
Wisconsin							
Madison							
Juniper Ridge/Hawks Woods [b] [c]	Dane	90	%	—	215	—	—
Meadow Crossing II [b] [c]	Dane	90	%	—	172	—	—
				—	387	—	—
Arizona, California, Missouri, Utah							
Tucson							
Boulder Pass [b] [c]	Pima	50	%	—	88	—	—
Dove Mountain	Pima	100	%	—	98	—	—
Oakland							

San Joaquin River	Contra Costa/Sacramento	100	%	—	—	—	288
Kansas City							
Somerbrook	Clay	100	%	173	222	—	—
Salt Lake City							
Suncrest [b] [d]	Salt Lake	90	%	—	181	—	—
				173	589	—	288
Total				17,570	13,880	798	1,151

[a] Interest owned reflects our net equity interest in the project, whether owned directly or indirectly. There are some projects that have multiple ownership structures within them. Accordingly, portions of these projects may appear as owned, consolidated or accounted for using the equity method.

[b] Projects in ventures that we account for using equity method.

(c) Venture project that develops and sells homes.
(d) Venture project that develops and sells lots and homes.

A summary of our significant non-core commercial and income producing properties at year-end 2015 follows:

Project	Market	Interest Owned (a)		Type	Acres	Description
Radisson Hotel & Suites (b)	Austin	100	%	Hotel	2	413 guest rooms and suites
Dillon (c)	Charlotte	100	%	Multifamily	3	379-unit luxury apartment
Eleven	Austin	100	%	Multifamily	3	257-unit luxury apartment
Music Row (c)	Nashville	100	%	Multifamily	1	230-unit luxury apartment
Elan 99 (c)	Houston	90	%	Multifamily	17	360-unit luxury apartment
Acklen (c)	Nashville	30	%	Multifamily	4	320-unit luxury apartment
HiLine (c)	Denver	25	%	Multifamily	18	385-unit luxury apartment
360° (c)	Denver	20	%	Multifamily	4	304-unit luxury apartment

(a) Interest owned reflects our net equity interest in the project, whether owned directly or indirectly.
(b) Under contract to be sold for $130.0 million and the transaction is expected to close in second quarter 2016.
(c) Construction in progress.

Our net investment in owned and consolidated real estate projects by geographic location at year-end 2015 follows:

State	Entitled, Developed, and Under Development Projects	Undeveloped Land and Land in Entitlement	Income Producing Properties	Total
	(In thousands)			
Texas	$263,202	$5,809	$106,459	$375,470
Georgia	5,244	67,149	—	72,393
North Carolina	25,282	118	19,987	45,387
California	8,915	24,589	—	33,504
Tennessee	16,862	10	9,947	26,819
Colorado	23,917	245	—	24,162
Other	8,719	261	—	8,980
Total	$352,141	$98,181	$136,393	$586,715

Approximately 64 percent of our net investment in real estate is in the major markets of Texas.

Markets

Sales of new U.S. single-family homes rose to a seven-year high in December 2015, on a seasonally adjusted basis, but remain well below historical levels. Inventories of new homes are near historically low levels in many areas. In addition, declining finished lot inventories and limited supply of economically developable raw land has increased demand for our developed lots. However, national and global economic weakness and uncertainty, and a restrictive mortgage lending environment continue to threaten a robust recovery in the housing market, despite low interest rates. Multifamily market conditions continue to be strong, with many markets experiencing healthy occupancy levels and positive rent growth. This improvement has been driven primarily by limited housing inventory, reduced single-family mortgage credit availability, and the increased propensity to rent among the 18 to 34 year old demographic of the U.S. population.

Competition

We face significant competition for the acquisition, entitlement, development and sale of real estate in our markets. Our major competitors include other landowners who market and sell undeveloped land and numerous national, regional and local developers. In addition, our projects compete with other development projects offering similar amenities, products and/or locations. Competition also exists for investment opportunities, financing, available land, raw materials and labor, with entities that may possess greater financial, marketing and other resources than us. The presence of competition may increase the bargaining power of property owners seeking to sell. These competitive market pressures sometimes make it difficult to acquire, entitle, develop or sell land at prices that meet our return criteria. Some of our real estate competitors are well established and financially strong, may have greater financial resources than we do, or may be larger than us and/or have lower cost of capital and operating costs than we have and expect to have.

The land acquisition and development business is highly fragmented, and we are unaware of any meaningful concentration of market share by any one competitor. Enterprises of varying sizes, from individuals or small companies to large corporations, actively engage in the real estate development business. Many competitors are local, privately-owned companies. We have a few regional competitors and virtually no national competitors other than national home builders that, depending on business cycles and market conditions, may enter or exit the real estate development business in some locations to develop lots on which they construct and sell homes. During periods when access to capital is restricted, participants with weaker financial conditions tend to be less active.

Oil and Gas

Our oil and gas segment is focused on maximizing the value from our owned oil and gas mineral interests through promoting exploration, development and production activities by increasing acreage leased, lease rates, and royalty interests.

We typically lease our owned mineral interests to third parties for exploration and production of oil and gas. When we lease our mineral interests, we may negotiate a lease bonus payment and retain a royalty interest.

In addition, we are focused on exiting our non-core working interest oil and gas assets, principally in the Bakken/Three Forks of North Dakota and Lansing Kansas City formation of Nebraska and Kansas. We only intend to allocate capital going forward to these non-core assets to preserve value and optionality for the ultimate sale as we evaluate exiting these assets.

Owned Mineral Interests

We own mineral interests beneath 590,000 net acres located in the United States, principally in Texas, Louisiana, Georgia and Alabama. Our revenue from our owned mineral interests is primarily from oil and gas royalty interests, lease bonus payments and delay rentals received and other related activities. We engage in leasing certain portions of these mineral interests to third parties for the exploration and production of oil and gas.

At year-end 2015, of our 590,000 net acres of owned mineral interests, 535,000 net acres are available for lease. We have about 55,000 net acres leased for oil and gas exploration activities, of which about 42,000 net acres are held by production from over 534 gross oil and gas wells that are operated by others, in which we have royalty interest. In addition, we have working interest ownership in 31 of these wells.

A summary of our owned mineral acres [(a)] at year-end 2015 follows:

State	Unleased	Leased [(b)]	Held By Production [(c)]	Total [(d)]
Texas	211,000	9,000	32,000	252,000
Louisiana	130,000	4,000	10,000	144,000
Georgia	152,000	—	—	152,000
Alabama	40,000	—	—	40,000
California	1,000	—	—	1,000
Indiana	1,000	—	—	1,000
	535,000	13,000	42,000	590,000

(a) Includes ventures.

(b) Includes leases in primary lease term or for which a delayed rental payment has been received. In the ordinary course of business, leases covering a significant portion of leased net mineral acres may expire from time to time in a single reporting period.

(c) Acres being held by production are producing oil or gas in paying quantities.

(d) Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Alabama and Georgia net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling.

A summary of our Texas and Louisiana owned mineral acres [(a)] primarily in East Texas and Gulf Coast Basins by county or parish at year-end 2015 follows:

Texas		Louisiana [(b)]	
County	Net Acres	Parish	Net Acres
Trinity	46,000	Beauregard	79,000
Angelina	42,000	Vernon	39,000
Houston	29,000	Calcasieu	17,000
Anderson	25,000	Allen	7,000
Cherokee	24,000	Rapides	1,000
Sabine	23,000	Other	1,000
Red River	14,000		144,000
Newton	13,000		
San Augustine	13,000		
Jasper	12,000		
Other	11,000		
	252,000		

(a) Includes ventures. These owned mineral acre interests contain numerous oil and gas producing formations consisting of conventional, unconventional, and tight sand reservoirs. Of these reservoirs, we have mineral interests in and around production trends in the Wilcox, Frio, Cockfield, James Lime, Pettet, Travis Peak, Cotton Valley, Austin Chalk, Haynesville Shale, Barnett Shale and Bossier formations.

(b) A significant portion of our Louisiana net mineral acres were severed from the surface estate shortly before our 2007 spin-off. Under Louisiana law, a mineral servitude that is not producing minerals or which has not been the subject of good-faith drilling operations will cease to burden the property upon the tenth anniversary of the date of its creation. Approximately 40,000 acres of our Louisiana owned net mineral acres may revert to the surface owner in 2017 unless drilling operations are commenced prior to the tenth anniversary of severance from the surface.

We engage in leasing certain portions of our owned mineral interests to third parties for the exploration and production of oil and gas. Leasing mineral acres for exploration and production can create significant value because we may negotiate a lease bonus payment and retain a royalty interest in all revenues generated by the lessee from oil and gas production. The significant terms of these arrangements include granting the exploration company the rights to oil or gas it may find and requiring that drilling be commenced within a specified period. In return, we may receive an initial lease payment (bonus), subsequent payments if drilling has not started within the specified period (delay rentals), and a percentage interest in the value of any oil or gas produced (royalties). If no oil or gas is produced during the required period, all rights are returned to us. Historically, our capital requirements for our owned mineral acres have been minimal.

Our royalty revenues are contractually defined and based on a percentage of production and are received in cash. Our royalty revenues fluctuate based on changes in the market prices for oil and gas, the decline in production in existing wells, and other factors affecting the third-party oil and gas exploration and production companies that operate wells on our minerals including the cost of development and production.

Most leases are for a three to five year term although a portion or all of a lease may be extended by the lessee as long as actual production is occurring. Financial terms vary based on a number of market factors including the location of the mineral interest, the number of acres subject to the agreement, proximity to transportation facilities such as pipelines, depth of formations to be drilled and risk.

Mineral Interests Leased

As of year-end 2015, our leasehold interests include 228,000 net mineral acres leased from others, principally located in Nebraska and Kansas primarily targeting the Lansing – Kansas City formation and in North Dakota primarily targeting the Bakken and Three Forks formations. We have 43,000 net acres held by production and 369 gross oil and gas wells with working interest ownership, of which 126 are operated by us. These assets have been identified as non-core and we plan to exit these assets over time and we only intend to allocate capital going forward only to preserve value and optionality of the ultimate sale as we evaluate exiting these assets.

A summary of our net mineral acres leased from others as of year-end 2015 follows:

State	Undeveloped [b]	Held By Production	Total
Nebraska	136,000	10,000	146,000
Kansas	9,000	8,000	17,000
Oklahoma	14,000	17,000	31,000
North Dakota	4,000	5,000	9,000
Other [a]	22,000	3,000	25,000
	185,000	43,000	228,000

(a) Excludes 8,000 net acres of overriding royalty interests

(b) We have 82,000 gross and 57,000 net undeveloped acres scheduled to expire in 2016.

Nebraska and Kansas

We have 163,000 net mineral acres primarily located on or near the Central Kansas Uplift formations located in the western Kansas counties of Graham, Lane, Thomas and Rawlins and in the southwest portion of Nebraska in the counties of Dundy, Red Willow and Hitchcock. At year-end 2015, we own working interests in 135 gross producing wells with an average working interest of 51 percent. These assets were sold for $21.0 million in first quarter 2016.

Oklahoma

We have 31,000 net mineral acres located in the Anadarko Basin. At year-end 2015, we own working interests in 76 gross producing wells with an average working interest of 39 percent. In first quarter 2016, we sold 16,700 net acres and 40 gross (8 net) wells in Oklahoma for $2.1 million.

North Dakota

We have 9,000 net acres in or near the core of the Bakken and Three Forks formations. Most of the acreage is located on the Fort Berthold Indian Reservation, south and west of the Parshall Field. We own working interests in 137 gross producing oil wells with an average working interest of 8 percent. Where a well has been drilled on a spacing unit, in many cases we expect additional development wells to be drilled on those spacing units in the future.

Most leases are for a three to five year term although a portion or all of a lease may be extended as long as production is occurring. Financial terms vary based on a number of factors including the location of the leasehold interest, the number of acres subject to the agreement, proximity to transportation facilities such as pipelines, depth of formations to be drilled and risk.

Estimated Proved Reserves

Our net estimated proved oil and gas reserves, all of which are located in the United States, as of year-end 2015, 2014 and 2013 are set forth in the table below. We engaged independent petroleum engineers, Netherland, Sewell & Associates, Inc.(NSAI), to assist us in preparing estimates of our proved oil and gas reserves in accordance with the definitions and guidelines of the Securities and Exchange Commission (SEC).

Net quantities of proved oil and gas reserves related to our working and royalty interests follow:

	Reserves Oil [a] (Barrels) (In thousands)	Gas (Mcf)
Consolidated entities:		
Proved developed	5,179	7,957
Proved undeveloped	—	—
Total proved reserves 2015	5,179	7,957
Proved developed	5,269	10,848
Proved undeveloped	2,403	1,801
Total proved reserves 2014	7,672	12,649
Proved developed	3,893	11,385
Proved undeveloped	1,931	